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Annual

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Report Highlights:

Smaller wheat production due to a fall in prices and adverse weather will result in a significant expansion in imports for MY2005. Corn imports are also forecasted to expand significantly as planted area and production is estimated to fall and domestic demand will stay strong.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Santiago [CI1]
[CI]

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Executive Summary

As a result of a significant fall in wheat prices and adverse weather conditions, planted area and output fell slightly in MY2005 when compared to the previous year. Consequently, wheat imports are expected to expand. For MY2006, initial planting surveys show a slight increase in planting intentions and production. Therefore imports are forecast to be slightly less than in MY2005, but considerably larger than in MY2004.

Chile's corn production for MY 2006 is expected to fall significantly as low prices discouraged plantings. Forecasts for MY2007 show another reduction in production; as a result, import requirements are expected to jump considerably, as consumption is expected to increase due to growth in the poultry and hog industries.

Wheat

Production

Wheat is politically Chile's most important annual crop. There are an estimated 89,000 producers, of which a little over 10,000 producers are in the so-called subsistence group with little or no alternative production. Just over 70,000 are small farmers, 5,000 are medium size producers and less than 3,000 are large producers.

Total wheat planted area fell significantly in MY2005, when compared to the previous marketing year and our last forecast. Adverse weather conditions during planting time and harvest, together with low prices obtained by producers for the previous year harvest are the main reasons for the significant fall in planted area and production. A significant fall in prices paid to producers during CY2005 is one of the main reasons for a 25 percent fall in the total planted area. Additionally, excess rain and bad weather during the fall and winter delayed planting in the main wheat producing areas. However, the adverse weather conditions during planting and normal conditions during harvest did not affect the quality of the production. Yields were actually better than the previous year. For MY2006, the initial planting survey forecasts an increase in the total planted area, when compared to MY2005. This increase is being attributed mainly to higher domestic wheat prices for CY2006. Domestic prices have been climbing as a result of increasing international prices and a lower than expected crop last year (MY2005). International prices reportedly increased in a response to a lower harvest in Argentina (Chile's main supplier) and the United States.

Consumption

Although our PS&D table shows a slight increase in total consumption of wheat, consumption for human use during the last few years has been rather stagnant. According to the local bakery association, Chileans consume an average of close to 100 kilos of bread per capita per year, making them the second largest consumers of bread in the Western hemisphere after Germany. Approximately 25,000 persons are employed in the industry. Domestic feed consumption of wheat has reportedly been expanding the last few years. A fast growing salmon and trout feed industry has become an alternative outlet for some wheat producers' production who have no storage capacity and have to sell their wheat right after harvest.

The milling industry is Chile's main wheat destination. An estimated 85 percent of total wheat supply (domestic production plus imports) is milled for flour. An estimated 80 percent of wheat flour is sold directly and produced by 85 milling facilities nationwide. Industry sources indicate that the wheat produced in Chile is in general of a lower quality than that

required by the bread and pasta industry. It is mainly low in protein and the quality varies a lot.

Prices

Wheat prices paid to farmers by the milling industry fell significantly in CY2004 (See Price Table) affecting planted area in MY2005. A significant revaluation of the local currency against the dollar, together with low prices for Argentinean wheat flour and increased imports of flour were the main factors cited by the milling industry for the domestic decline in wheat prices. But an expected fall in total worldwide production is driving wheat prices up again in Chile's domestic wheat market. Wheat flour imports from Argentina increased significantly during CY2004, when compared to the previous year. As a result, wheat flour millers and wheat producers requested and obtained a safeguard of 17% on flour imports from Argentina. This safeguard was in effect during CY2005 and renewed again until December of 2006, but the rate was lowered from 17 to 14 percent. Argentina unofficially subsidizes its milling industry by providing a differentiated export tax. The tax is much higher on wheat than on wheat flour. This subsidy has made the Argentinean wheat flour industry extremely competitive and prompted both the Chilean growers and millers to seek the safeguard measures.

Trade

New MY2005 import figures are forecasted to be larger than previously estimated and then in MY2004 due to a smaller harvest. For MY2006, a slightly smaller amount of imports is forecasted, as production will expand again in response to better prices paid during this season.

Domestic import decisions are normally driven by price followed by quality, but sometimes price and/or quality take a back seat when a shipload needs to be filled. Under these conditions a higher price may be paid and/or a lower quality accepted for the remaining portion of the shipment. Consequently, although you would expect importers to get wheat from a U.S. supplier when a higher quality product is sought, the supplier in a third country, even with a lower quality product might get the sale.

Wheat exports shown in the PS&D table correspond to wheat product exports, mostly uncooked pasta, which is converted to grain equivalent. Chile's largest markets for these products are countries like Peru and Venezuela. The United States is also an important export market for these products.

Price Band

To settle a dispute presented by Argentina in the WTO about price bands in November 2003, the Chilean Government modified its system and published new floor and ceiling prices for wheat. The values for the floor and ceiling prices are USD\$128 f.o.b. and USD\$148 f.o.b. respectively. These prices will remain fixed until 2007. Starting 2008, the floor will be adjusted downward by 2% a year until 2014, when the price band should disappear as it was agreed in the FTA agreement with the United States. A Chilean government source indicated that after 2012 price bands probably would be dismantled if other countries eliminate export subsidies, as recommended in the 2006 Doha preparatory meetings. The reference price is a fixed amount in US dollar per ton and it is published six times a year. The reference price is based on an average of the daily price for the 30 days preceding the date of publication. For the first semester the relevant market is FOB at Argentinean port and for the second semester it is soft red winter wheat #2, FOB Gulf of Mexico. The reference price is

determined based on the date of entry of the goods. For wheat flour imports, an additional 56% is applied to the values set under the wheat price band.

In early January 2006, Argentina filed a new complaint against Chile's price band system. Industry sources believe Argentina filed the complaint because the Chilean Government renewed the safeguard measure against Argentinean wheat flour, in response to farmer and miller protests, rescinded an offer for a 10,000 MT quota that would have been exempt from the safeguard. Argentina argues that Chile has not complied with the ruling from the previous WTO case (October 2002).

| PSD Table | | | | | | | |
|------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------|
| Country | Chile | | | | | | |
| Commodity | Wheat | | | | (1000 HA)(1000 MT) | | |
| | 2004 | Revised | 2005 | Estimate | 2006 | Forecast | UOM |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | |
| Market Year Begin | | 12/2004 | | 12/2005 | | 12/2006 | MM/YYYY |
| Area Harvested | 420 | 420 | 360 | 315 | 0 | 346 | (1000 HA) |
| Beginning Stocks | 449 | 411 | 328 | 221 | 313 | 228 | (1000 MT) |
| Production | 1860 | 1852 | 1600 | 1492 | 0 | 1526 | (1000 MT) |
| TOTAL Mkt. Yr. Imports | 234 | 188 | 600 | 765 | 0 | 695 | (1000 MT) |
| Jul-Jun Imports | 321 | 169 | 500 | 450 | 0 | 350 | (1000 MT) |
| Jul-Jun Import U.S. | 20 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| TOTAL SUPPLY | 2543 | 2451 | 2528 | 2478 | 313 | 2449 | (1000 MT) |
| TOTAL Mkt. Yr. Exports | 15 | 20 | 15 | 20 | 0 | 20 | (1000 MT) |
| Jul-Jun Exports | 19 | 0 | 15 | 0 | 0 | 0 | (1000 MT) |
| Feed Dom. Consumption | 150 | 160 | 150 | 180 | 0 | 230 | (1000 MT) |
| TOTAL Dom. Consumption | 2200 | 2210 | 2200 | 2230 | 0 | 2150 | (1000 MT) |
| Ending Stocks | 328 | 221 | 313 | 228 | 0 | 279 | (1000 MT) |
| TOTAL DISTRIBUTION | 2543 | 2451 | 2528 | 2478 | 0 | 2449 | (1000 MT) |

| Import Trade Matrix | | | |
|---------------------|-----------|-----------|--------|
| Country | Chile | | |
| Commodity | Wheat | | |
| Time Period | Jan - Dec | Units: | M.T. |
| Imports for: | 2004 | | 2005 |
| U.S. | 39682 | U.S. | 29596 |
| Others | | Others | |
| Canada | 120170 | Canada | 106101 |
| Argentina | 61867 | Argentina | 60616 |
| Paraguay | 5856 | Spain | 26 |
| France | 3 | France | 19 |
| Mexico | 2 | | |
| | | | |
| Total for Others | 187898 | | 166762 |
| Others not Listed | | | |
| Grand Total | 227580 | | 196358 |

| Prices Table | | | | | | |
|---------------|----------------|----------------------|---------|------|------|---------|
| Country | Chile | | | | | |
| Commodity | Wheat | | | | | |
| Prices in | Constant pesos | | per uom | Kg | | |
| | | | | | | |
| Year | 2004 | 2005 | %Change | 2005 | 2006 | %Change |
| Jan | 126 | 98 | - 22% | 98 | 107 | 9% |
| Feb | 117 | 98 | - 16% | 98 | 109 | 11% |
| Mar | 117 | 97 | - 17% | 97 | 110 | 13% |
| Apr | 118 | 101 | - 14% | 101 | | - 100% |
| May | 119 | 105 | - 12% | 105 | | - 100% |
| Jun | 122 | 110 | - 10% | 110 | | - 100% |
| Jul | 122 | 109 | - 11% | 109 | | - 100% |
| Aug | 123 | 109 | - 11% | 109 | | - 100% |
| Sep | 113 | 103 | - 9% | 103 | | - 100% |
| Oct | 114 | 102 | - 11% | 102 | | - 100% |
| Nov | 103 | 101 | - 2% | 101 | | - 100% |
| Dec | 96 | 104 | 8% | 104 | | - 100% |
| | | | | | | |
| Exchange Rate | 528 | Local Currency/US \$ | | | | |

| | | |
|---------------|-----------|------------|
| Date of Quote | 3/31/2006 | MM/DD/YYYY |
|---------------|-----------|------------|

Corn

Production

In spite of a strong demand due to projected increases in poultry and hog production, the prices being paid to producers for domestic corn production have fallen dramatically as international prices for corn have dropped significantly. High prices stimulated world production of corn last year bringing stocks back to normal levels and contributing to the deterioration of world corn prices. As a result of the low global corn prices, corn plantings and production in MY 2006 fell and it is forecasted to fall further in MY2007 as domestic corn prices are similar and follow closely international prices.

Corn plantings in Chile are expected to fall further in the coming years as costs of production keep rising and mainly small farmers look for alternative crops. Corn production in Chile is a so-called intensive production crop - a significant number of farmers plant corn year after year on the same field. According to a producer contact, approximately 56% of the costs correspond to inputs (seeds, fertilizer, chemicals), 28% machinery, 4% labor and 12% other. As a result of a significant increase in input prices during the last few years it is estimated that the production costs for a hectare is an equivalent of 14 MT of corn and the national average yield is 11.2 MT. A further deterioration of corn price will most probably result in additional reduction in planted area and production. Consequently, imports will rise, as there is a strong demand by the growing poultry and hog industries.

Consumption and Trade

Corn imports are expected to expand, due to expanded feed use in the hog and poultry industries and a smaller output expected in MY2006. An additional expansion is expected in MY2007 as planting and production is forecasted to fall further, mainly due to a significant fall in domestic corn prices, an increase in production costs, and a revaluation of the local currency against the dollar. Imports are expected to jump over 20 percent in MY2007.

Argentina is the largest supplier of bulk corn to Chile. This situation is not expected to change, as Argentina continues to have cost/quality advantages. Although as of January 2006 the import duty for Argentinean and US corn is the same (zero %), office contacts report that most imports are still expected to come from Argentina. Allegedly there is a significant cost advantage for Argentinean corn, as the trucks are loaded directly on the farms and driven across the border to the consumer's (in Chile) storage facilities, thus avoiding the unloading and loading of ships at the port and reducing total transportation costs.

| PSD Table | | | | | | | |
|------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------|
| Country | Chile | | | | | | |
| Commodity | Corn | | | | (1000 HA)(1000 MT) | | |
| | 2004 | Revised | 2005 | Estimate | 2006 | Forecast | UOM |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | |
| Market Year Begin | | 03/2005 | | 03/2006 | | 03/2007 | MM/YYYY |
| Area Harvested | 128 | 134 | 100 | 124 | 0 | 111 | (1000 HA) |
| Beginning Stocks | 349 | 257 | 484 | 450 | 259 | 445 | (1000 MT) |
| Production | 1410 | 1508 | 1000 | 1410 | 0 | 1258 | (1000 MT) |
| TOTAL Mkt. Yr. Imports | 1100 | 1192 | 1100 | 1295 | 0 | 1557 | (1000 MT) |
| Oct-Sep Imports | 1081 | 950 | 1100 | 1150 | 0 | 1280 | (1000 MT) |
| Oct-Sep Import U.S. | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| TOTAL SUPPLY | 2859 | 2957 | 2584 | 3155 | 259 | 3260 | (1000 MT) |
| TOTAL Mkt. Yr. Exports | 75 | 57 | 75 | 60 | 0 | 60 | (1000 MT) |
| Oct-Sep Exports | 75 | 0 | 75 | 0 | 0 | 0 | (1000 MT) |
| Feed Dom. Consumption | 2150 | 2150 | 2100 | 2350 | 0 | 2450 | (1000 MT) |
| TOTAL Dom. Consumption | 2300 | 2450 | 2250 | 2650 | 0 | 2750 | (1000 MT) |
| Ending Stocks | 484 | 450 | 259 | 445 | 0 | 450 | (1000 MT) |
| TOTAL DISTRIBUTION | 2859 | 2957 | 2584 | 3155 | 0 | 3260 | (1000 MT) |

| Import Trade Matrix | | | |
|---------------------|---------|-----------|---------|
| Country | Chile | | |
| Commodity | Corn | | |
| Time Period | Jan-Dec | Units: | M.T. |
| Imports for: | 2004 | | 2005 |
| U.S. | 0 | U.S. | 1 |
| Others | | Others | |
| Argentina | 953150 | Argentina | 1119070 |
| Brazil | 25944 | Peru | 8 |
| Peru | 16 | Germany | 2 |
| Canada | 3 | Italy | 1 |
| Mexico | 1 | Canada | 1 |
| | | | |
| Total for Others | 979114 | | 1119082 |
| Others not Listed | 0 | | |
| Grand Total | 979114 | | 1119083 |

| Prices Table | | | | | | |
|---------------|----------------|----------------------|----------|------|------|----------|
| Country | Chile | | | | | |
| Commodity | Corn | | | | | |
| Prices in | Constant pesos | | per uom | Kg | | |
| | | | | | | |
| Year | 2004 | 2005 | % Change | 2005 | 2006 | % Change |
| Jan | 99 | 86 | -13% | 86 | 71 | -17% |
| Feb | 101 | 84 | -17% | 84 | 73 | -13% |
| Mar | 99 | 79 | -20% | 79 | 74 | -6% |
| Apr | 97 | 77 | -21% | 77 | | -100% |
| May | 99 | 77 | -22% | 77 | | -100% |
| Jun | 101 | 76 | -25% | 76 | | -100% |
| Jul | 101 | 78 | -23% | 78 | | -100% |
| Aug | 98 | 79 | -19% | 79 | | -100% |
| Sep | 97 | 76 | -22% | 76 | | -100% |
| Oct | 95 | 75 | -21% | 75 | | -100% |
| Nov | 93 | 75 | -19% | 75 | | -100% |
| Dec | 92 | 72 | -22% | 72 | | -100% |
| | | | | | | |
| Exchange Rate | 528 | Local Currency/US \$ | | | | |
| Date of Quote | 3/31/2006 | MM/DD/YYYY | | | | |

